ratepayers with the costs of these information age developments.

More specifically, Pacific Bell's subject matter experts working both competitive and non-competitive projects have not been correctly segregating their time between the two business sectors. Pacific Bell could not reconcile research and development expenses tracked with amounts recorded in its regulatory books of accounts. Pacific Bell has not established a clear audit trail for research and development project expenditures. Mapping of project costs to product applications or to FCC accounts were not readily available for the audit team review. Not all the projects were tracked starting at the same phase of development. Because tracking procedures are arbitrarily applied, cost shifting would occur. Pacific Bell's arbitrary recording process for research and development expenses and weak internal controls over the acounting and tracking processes raise questions regarding the integrity of its accounting system for regulatory purposes in this area.

Personal Communications Services (PCS) was developed using ratepayers' funding. Pacific Telesis' decision was to have Pacific Bell offer PCS(W) network based services as non-competitive services to accommodate the development of PCS(R) by PacTel Corp., its then wireless operations. Pacific Bell's subject matter experts indicated that PCS(W) was risky. Under Pacific Bell's plans, the potential profits for PCS would flow to the shareholders even though most if not all expenditures and development costs were borne by the ratepayers. Pacific Bell's decision to concentrate on PCS(W) was not preceeded by a formal financial evaluation of ratepayers' benefits.

Pacific Bell made network infrastructures modifications, with ratepayers' funding, that were mainly to accommodate the development of its competitive enhanced services. However, under Pacific Telesis' corporate policy only its shareholders will realize the profits from these projects. Ratepayers' cost benefit studies were not performed prior to starting research and development and new product development projects.

Enhanced services - All of the new product development that eventually lead to enhanced services are not captured as product costs, especially those costs incurred prior to the market feasability stage. Because the enhanced services related expenditures are co-mingled with other operating expenses that are funded from baseline budgets, the pre-captured costs are borne by the ratepayers.

Pacific Bell spent millions of dollars to modify its pay phones to accommodate its Pacific Bell Information Services Group. The benefits to ratepayers from retrofitting pay phones have not been quantified by Pacific Bell. Moreover, the number of pay phones retrofitted by Pacific Bell may have exceeded the five percent permitted by the California Commission.

Yellow page organizations - The NARUC Audit Team began its investigation of Pacific Bell Directory in late 1992. The Audit Team reviewed the yellow page operation, held interviews with Pacific Bell Directory's management, project managers and subject matter experts. The audit scope and approach focused on the Pacific Bell Directory's major product development, electronic yellow pages. The yellow page operations of Pacific Bell Directory, a wholly owned subsidiary of Pacific Bell, are considered to be part of the regulated rate base in California. All revenues and expenses associated with yellow page operations are thus considered "above-the-line" for ratemaking purposes, unless specifically excluded. This regulatory treatment started early in the corporate history of Pacific Bell (then known as Pacific Telephone and Telegraph Company) and continues to the present. All of the substantial contribution from the yellow page revenue streams is used to offset the cost of exchange operations.

Pacific Bell Directory's research and development and associated activities in electronic publishing and other emerging technology in the directory field were funded by the ratepayers. As best as can be determined, the ratepayers' funding of these electronic publishing services and products began in the mid-1980s. Substantial amount of staff resources at Pacific Bell Directory were involved in the research and development of potential electronic publishing services and products.

All research and development activities were abruptly discontinued (about 1992) at the Pacific Bell Directory. Key personnel and the electronic publishing activities were transferred to an essentially non-regulated subsidiary, Pacific Bell Information Services. After about a year, a further transfer was made of this electronic publishing operation to a newly formed company that is not part of the Pacific Bell corporate structure, another step away from the reaches of the regulatory agency.

The change in corporate strategy to that of prohibiting Pacific Bell Directory from engaging in research and development, or from the offering of electronic delivery or enhancement of the core yellow page information business has left the company with a mature business with a declining growth rate. This strategy has removed from Pacific Bell Directory a potential new source of revenue to offset the potential loss of classified yellow page advertising revenues to emerging electronic publishing competitors and potentially to its newly formed electronic publishing service company, the latter, being a form of cannibalization.

The Pacific Telesis Group's strategy, if unchanged, has left a billion dollar regulatory ratemaking asset without the means to enhance in a significant way or even to maintain its industry and revenue position over the long term. This change in Pacific Telesis' corporate strategy appears to have been made to ensure that only the shareholders' benefit from the electronic publishing development funded by the general body of ratepayers. Current regulatory rules may not be adequate to prevent or deter similar situations from occuring. A situation exists where ratepayers, in essence provide the seed money and bear the risks with the potential rewards accruing to the shareholders. There has been no compensation for the ratepayers' multi-million dollar risk. Pacific Telesis' electronic publishing ventures have been cross-subsidized by the ratepayers.

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ACKNOWLEDGEMENTS

This report was prepared under the general direction of the NARUC/Federal Staff Audit Oversight Committee (Chaired by Thomas Lew, CPA, California). The audit team consisted of the following:

Thomas Doub, Financial Examiner IV (Audit Manager)
Ravi Kumra, PE, Regulatory Analyst IV
Francis Fok, CPA, Regulatory Analyst III
Lester Wong, Regulatory Analyst IV

The FCC staff was not able to participate in this region's audit effort. The Nevada PSC staff was invited to participate, but they were also not able to join in the audit. Pacific Telesis has two telephone operating systems, Pacific Bell and Nevada Bell. Nevada Bell represents less than 2% of the total Telesis operating company revenues.

Other staff who had brief assignments to the project included the following:

Sophie Chia, Financial Examiner III
Linda Woods, Regulatory Analyst III
Rahmon Momoh, Regulatory Analyst II

The audit team members, as listed above, are all from the California Public Utilities Commission's Division of Ratepayer Advocates. It should be noted that the opinions and conclusions expressed in this report are those of the audit team members and do not necessarily reflect the views, opinions, or policies of the California Public Utilities Commission, or any of its Commissioners, the Division of Ratepayer Advocates, or other staff members. It is also noted that a Policy Management Group, as discussed later in this report (page A-10), was not formed for this region.

This report has been heavily redacted. Pursuant to the pre audit agreement Pacific Telesis has reviewed this report for proprietary information. Discussions were held with the company which resulted in a list of items that the company believes is proprietary. In the interest of avoiding a delay in the issuance of this report the audit team has agreed to remove the alleged confidential material. In some cases the identified material was reworded, but in the areas where the information has just been removed an indication of [redacted] has been substituted.

PREFACE

Ever since the breakup of AT&T back in 1984 and the resulting formation of the seven Regional Bell Operating Companies (RBOCs), considerable restructuring has been taking place in the industry. This has been not only true for the RBOCs themselves, but also for the regulatory bodies that need to cope with the changing environment. Each jurisdiction has dealt with the challenges in different ways, but generally, it was felt by the NARUC participants that on average more is needed to be done about what was happening with the proliferation of affiliated companies, the inter-company relationships, and the effect on the country's ratepayers.

It was felt that an effort along these lines could be helpful for everyone, and in fact, a project of this magnitude could only be done effectively with a cooperative multi-jurisdictional team to do the work. In recognition of this need, the NARUC Committee on Finance and Technology sponsored a resolution calling for an audit of the RBOC affiliated relationships. A national staff audit oversight committee was formed to guide the project, and seven regional teams were formed to conduct the audit. This document is a report on the findings of the Pacific Telesis Regional audit.

The team members, which began the audit in May of 1992, are identified in the acknowledgements to this report. Of the 6 areas selected for subject matter review by the Staff Audit Oversight Committee, three are covered in this region's report. They are yellow pages, enhanced services, and research and development. The team complement fluctuated considerably over the course of the audit, but consisted on average of 2 full time and 1 part time participants. The

7. Corporate placement of EYP
8. Other issues and problems
9. Findings and Conclusions

The original concept was to produce one report with one national audit team. Although it was later determined that regional reports were more practical, considerable national coordination and effort went into the project. We believe that the goals and objectives envisioned in the formative stages of the project have been achieved in many respects, and that the products resulting from these investigations will prove to be valuable resources for each jurisdiction that chooses to make use of the findings.

T. Doub

Audit Manager

CHAPTER 1

NARUC'S INTEREST IN RBOC AFFILIATE RELATIONS

It was on November 13, 1991 that the National Association of Regulatory Commissioners adopted Resolution Number 8 calling for an Audit of the Seven Regional Bell Operating Companies'(RBOCs) affiliated transactions (See Appendix A for reprint of the Resolution text). This resolution was sponsored by the Committee on Finance & Technology and expressed many of the concerns that had been the subject of ongoing informal discussions. In summary these concerns are:

- the potential for cross-subsidizations between regulated and non regulated RBOC businesses;

- the relative economy and efficiency with which products and services are provided between the operating companies and their parent companies and/or unregulated affiliates;

- the effectiveness and adequacy of present non-structural safeguards;

- the need for a good understanding of current holding company structures, parent-subsidiary relationships and the affiliated inter company relationships; and

- the lengths of time since RBOC business direction and activities have been reviewed.

It was further determined that good regulatory policy would support the idea of a periodic review in a comprehensive manner. Such an audit would promote public confidence in the regulatory process.

General Scope

One of the first orders of business for this committee was to identify the pertinent areas of investigation consistent with the guidelines set forth in the resolution. On December 16, 1991 the oversight committee agreed to recommend six areas for this audit. These include:

1. enhanced service organizations,
2. costing methodologies and practices,
3. yellow page organizations,
4. billing and collection operations,
5. services/central management organizations, and
6. RBOCs' research organizations.

The oversight committee further agreed that an appropriate audit approach for this project would necessarily involve certain key considerations. These points were distributed to the audit managers for incorporation in their respective audit scopes, programs and/or general audit plans for their specific RBOC region. These guidelines are itemized as follows:

> The findings in this audit should be specific as opposed to general reference material that is available from other sources. The audit should answer specific questions.
>
> 1. Are there:
>   - cross-subsidies,
>   - improprieties,
>   - noncompliance,
>   - cost shifting,
>   - monopoly profit siphoning,
>   - resource draining,
>   - anti-competitive behaviors, and/or
>   - improper sharing of resources?
>
> 2. Is the operating company being run with economy and efficiency or has diversification adversely affected the remaining monopoly?
>
> 3. Are the non-structural safeguards effective?

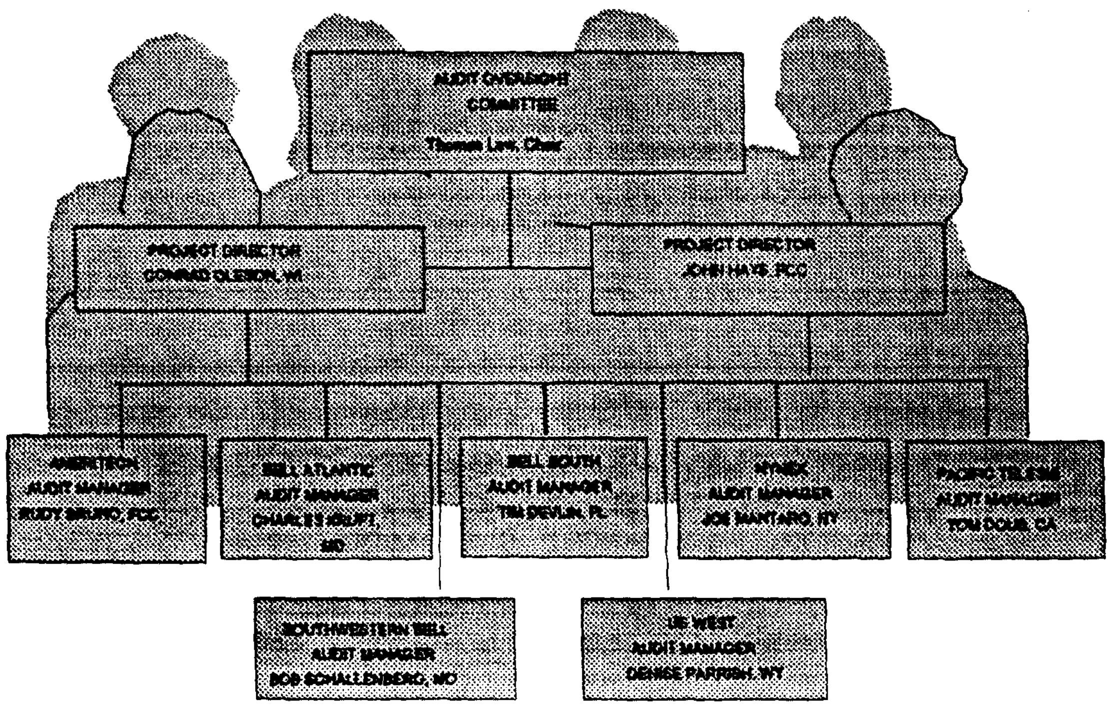
During the performance of the audits, perspective should be maintained in that the audit approach should be multi-faceted to examine: past problems, current operations and the outlook. Duplication of audit work that has either been recently completed or is currently ongoing is to be avoided (see state commissions. As an introduction to the audit the package included:

- A list of the oversight committee members, the project directors, and the audit managers;
- An organizational chart;
- A copy of the resolution; and
- Summaries of the plan of review for each of the six audit areas

The letter requested the commissions to cooperate with the audit effort with the staffing of the 7 audit teams. The letter specified that besides an audit manager each team should have at least 7 team members. Besides the need for auditors the request called for staff with backgrounds in engineering, economics and regulation as well.

Over the course of the audit the personnel and organization of the national team changed from time to time for various reasons. To help illustrate how the team composition has changed an organization chart from 2/92 and one from 4/94 are included below. A comparison of the two charts shows that only 3 of the original 10 positions have remained staffed the same. These organizational movements were the source of some of the difficulties in conducting the audits; however, were also somewhat inevitable considering the audit time span and the various jurisdictional project and staffing requirements.

FEBRUARY 1992



These meetings were the only opportunities for audit team members of each of the regional teams to meet each other, compare notes and exchange ideas in their respective audit areas. Typically, these meetings were structured with an agenda, formal presentations by both team and non-team members and small group sessions. Because of sensitivity to the need not to disclose proprietary information and to audit agreements with the utilities, the information sharing was limited to general issues, audit techniques and topics of inquiry. Nevertheless, it was generally agreed that such meetings were valuable to the overall audit effort and necessary to any future joint endeavor of this type.

Initial Responses

In a letter to the CEOs of the RBOCs, dated December 20, 1991, the then president of NARUC, Commissioner Kenneth Gordon (Maine) introduced the idea of the audits to the 7 RBOCS. In that letter he requested their cooperation with the effort and funding for the work to be done. Some of the RBOC responses questioned the appropriateness of the audit, and raised some concern regarding duplicative efforts, rights of access, and willingness to fund. Some commissioners also expressed certain reservations along similar lines.

Duplication Concern

Early in the process there was concern expressed by some of the RBOCs and state commissioners regarding the possibility of duplicating recent, ongoing or expected audit or review work in some of the areas. In response to this concern a survey was conducted seeking sufficient information to determine if duplication could be expected to be a problem. A summary of the results of that survey is included in this report as Appendix C. Also a copy of the questionnaire is included here as Appendix D.

Following the results of the survey it was noted that thirteen states and the FCC had conducted some type of audit since 1/1/89. In determining whether such audits should affect the scope of the NARUC audit it was cautioned that there had been major RBOC reorganizations affecting 9 of those 13 states during that 3 year time frame. Specifically, these were identified as:

- *the merger of South Central Bell and BellSouth Services into Southern Bell as well as several shifts of other nonregulated subsidiaries in the BellSouth region;*

- *the merger of Pacific Northwest Telephone Company and Northwestern Bell Telephone Company into the Mountain* require an examination of policies and activities from the view point of both sides of such transactions, which would include looking at some operations within the operating companies as well as the affiliates. At this juncture it was also reaffirmed that it was important for all concerned that the audit not duplicate other efforts.

Access and Use

Considerable time and effort were spent dealing with the concerns over the NARUC Audit team authority to access utility and affiliate data, the handling of proprietary information, the sharing of data between team members of different jurisdictions, and the procedures by which the report or reports would be released upon their completion. Also included in these dialogues was the issue regarding the nature of the audit report findings in terms of jurisdictional specificity, and the sharing of state specific information.

Over time it became clearer that each region had special concerns and circumstances; accordingly, it was concluded that separate regional reports would work better than one national report. The above concerns would also best be addressed on a region by region basis. It was agreed, though, that access was crucial to the project. Therefore, it was agreed that specific audit information would not be shared among team members from other jurisdictions without first obtaining non-disclosure agreements from the individuals concerned. It was also the consensus that an important goal of the audit was to provide state specific information in order for the findings to be useful to each state within the region, especially those which could not individually support such a project.

Overall, the Oversight Committee, Project Managers, and team members acknowledged the need to be particularly mindful of the need to be sensitive to the careful handling of proprietary information in an environment that was producing more and more competing interests. The general report release guidelines that were subsequently adopted by the Oversight Committee took such concern into account when setting up the chronology of procedural steps. The goal of these guidelines was also to avoid some of the pitfalls experienced during the preparation and release of the Bellcore report. It is noted here that those audits that comprised FCC personnel also included release restrictions that involved a hold being placed on any audit reports pending FCC approval.

Each region faced particular challenges along these lines, e.g. the Florida State Supreme Court case dealing with BellSouth's challenge to the team's access to affiliate documentation, that

CHAPTER 2

GETTING STARTED AT TELESIS

Corporate/Regulatory Background

Pacific Telesis Group (Telesis) is the name of the RBOC holding company in this region. It controls two operating companies: Pacific Bell (PacBell) and Nevada Bell. In terms of operating revenue Nevada Bell only makes up about 2% of Telesis' operations. Pacific Bell's area of operation is entirely within the state of California.

Pacific Bell was incorporated in California in 1906 and was one of AT&T's 22 wholly owned Operating companies until December 31, 1983. Most notable of the organizational and regulatory changes that have impacted this RBOC are: the CPUC's adoption of an incentive-based regulatory plan, the creation of Pacific Bell Information Systems (PBIS) as a wholly owned subsidiary of Pacbell, and the spin off of Pacbell's wireless operations.

The New Regulatory Framework (NRF)

In 1989 the CPUC adopted a new regulatory framework for the local exchange carriers, which was the result of phase II of the CPUC's investigation into alternative regulatory frameworks. The new regulatory framework is a form of price cap regulation with an authorized "market-based" rate of return of 11.5%. If the Company's rate of return exceeds 13%, the earnings above the 13% must be shared with the ratepayers on a 50-50 basis. Earnings above 16.5% must be returned at 100% to the ratepayers. Rate changes that might result from the required annual price cap filing would reflect such factors as productivity {set at the Gross National Product Price Index (GNPPI) less 4.5%}; certain exogenous costs (those beyond the company's control); and special circumstance (e.g. adoption of a new accounting standard) rate modifications.[3]

This decision also established three categories of local exchange service:

- Category I services consist of basic monopoly services and rates for these service are to be set or changed only upon approval of the Commission,

[3]FORM 10-K to the Securities and Exchange Commission for the Fiscal Year Ended December 31, 1992, p.10.

Phase III will address the issues of implementation rate design and intraLATA competition. The case has been submitted and is pending a commission decision.

Pacific Bell Information Systems (PBIS)

On January 1, 1993, Pacific Bell transferred a business unit to its newly created wholly owned subsidiary, PBIS, to offer such services as voice mail, electronic messaging and interactive voice response. As a condition of transfer, the CPUC required that the difference between the transferred net book value and the "going concern" value be returned to the ratepayers. Consultants were brought in to help determine the going concern value of the transferred entity. A surcredit reflecting the return is expected to show up on customers' bills by mid-1994.

The Spin Off

On December 11, 1992, Telesis' Board of Directors announced the intention to spin off Telesis' wireless operations to a separate non affiliated entity. The operations that were spun off included all subsidiaries, both domestic and international, that were involved with cellular, paging and radiolocation operations. The CPUC instituted an Ordered Instituted Investigation (OII) on February 17, 1993, and the spin off was effected on April 1, 1994.

Prior to the spin off the wireless companies under Telesis' umbrella included the following:

PacTel Cellular
PacTel Paging
PacTel Teletrac
PacTel Teletrac
PacTel Cable
PacTel International.

Please refer to Appendix F for organizational charts depicting the before and after spin-off corporate structure. The table in the appendix labeled Present Structure refers to the pre-4/1/94 and pre- PTEPS period. In brief, the post April 1, 1994, wireless spin-off has resulted in separate companies with Pacific Telesis organized in the following way.[8]

[8]Pacific Telesis Group 1992 Summary Annual Report

Funding

Estimated costs for the remainder of 1992 and for 1993 were prepared, which mostly involved out of state travel expenses. Pacific Telesis Group (Telesis) agreed to support these expenses for the purposes of this audit."

Staffing

Initially, the team consisted of the audit manager and 5 team members. Accordingly, as the audit plan was prepared, all six of the specified areas for examination were included in the scope with the hope of gaining at least 2 more team members. However, over time the team was unable to maintain this staffing level. Over the course of the audit we kept on average a team level of approximately two full time and one part time participants. Consequently, the scope had to be eventually trimmed to cover only 3 of the 6 audit areas.

General Audit Plan

The approach taken at Telesis was generally to investigate the concerns addressed in the NARUC resolution through an examination of projects and the company's policies in managing these projects. The audit was divided up into 4 phases:

1. Initial Preparation
2. Onsite/written data collection
3. Analysis and Write up
4. Report Preparation

Data Collection

Over the course of the audit thousands of hours were expended in the audit effort. The intensity of the effort ebbed and flowed as personnel rotated on and off the team, but there were approximately 80 data requests sent to the company, or requested during interviews, covering over 400 questions. The team also conducted numerous interviews with company personnel. Innumerable on site documents were also reviewed.

Much of the audit was conducted by way of the data request. Although the team maintained a general guideline, similar to ratecase audits, that responses should be made within ten days, few made that type of dead line. Telesis indicated that much of

APPENDIX A

Appendix A

Resolution No. 8

Convention Floor Resolution No. 8
Resolution to Audit the Seven Regional Bell Operating Companies' (RBOCs) Affiliated Transactions

WHEREAS, There is ongoing concern regarding potential cross-subsidizations between the regulated monopoly operations and the non-regulated business of the RBOCs; and

WHEREAS, There is a need to ascertain the economy and efficiency with which products and services are provided between the regulated operating companies and their parent companies and/or unregulated affiliates; and

WHEREAS, There is a need to determine the effectiveness and adequacy of present regulatory non-structural safeguards; and

WHEREAS, There is a need to develop a better understanding of the RBOCs' holding company structures, parent-subsidiary relationships and the affiliated intercompanies relationships;

WHEREAS, More than five years have elapsed since the last NARUC audits of the RBOCs' business direction and activities; and

WHEREAS, It is good regulatory policy and it would promote public confidence in the regulatory process to review on a periodic basis in a comprehensive manner this area of affiliated interest; now, therefore, be it

RESOLVED, That the National Association of Regulatory Utility Commissioners (NARUC), convened at its 103 rd Annual Convention and Regulatory Symposium in San Antonio, Texas, authorizes the Staff Subcommittee on Accounts to perform or cause to be performed, audits in a comprehensive manner in the area of affiliated interest of each of the seven regional companies with the audit expense including travel borne by the RBOCs; and be it further

RESOLVED, That the Staff Subcommittee on Accounts is directed to invite the Staff Subcommittee on Communications and Cost Allocations to participate in this National effort; and be it further

RESOLVED, That in keeping with the spirit of cooperation set forth in the Executive Committee of the NARUC Resolution, adopted February 28, 1990, regarding joint or coordinated FCC and State Audits and the potential

APPENDIX B

APPENDIX B

THE STATE OF WYOMING

MIKE SULLIVAN
GOVERNOR

Public Service Commission

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ALEX J. ELIOPULOS
CHIEF COUNSEL AND
COMMISSION SECRETARY
STEPHEN G. OXLEY
ADMINISTRATOR

March 24, 1992

At its most recent convention, the NARUC adopted a resolution regarding an audit of affiliated transactions of the seven Regional Bell Companies (copy enclosed). The Association's Staff Subcommittee on Accounts has formed an oversight committee to coordinate the conduct of these audits. In addition, the project directors and audit managers have been selected (see enclosed organization charts).

The purpose of this letter is to formally transmit the NARUC resolution and to solicit your cooperation in staffing the seven audit teams. We are seeking wide participation from all the state commissions. Some commissions have already agreed to provide reasonable staffing for this joint state/federal national effort.

As you know few state commissions have the resources to perform these audits themselves and increasingly have to rely on outside consultants with the attendant advantages and disadvantages. Clearly, it is more desirable to have the commissions' staff perform these audits when possible because of the lasting benefits and experience. The enclosed resolution sets forth the reasons and the immediate need for this joint audit.

We note that in several regions no comprehensive affiliated interest audits have been conducted since divestiture. We believe that this national effort presents a unique window of opportunity for all the state commissions to participate and share in the mutual benefits of these joint efforts. Substantial organizational and preparatory work has already been completed and we are prepared to proceed with the audits.

The project oversight committee has selected six audit areas: (1) enhanced service organizations, (2) cost methodologies and practices, (3) yellow pages organizations, (4) billing and collection organizations, (5) central service organizations, and (6) RBOCs' research organizations.

APPENDIX C

APPENDIX C

NARUC/FCC SURVEY ON STATE AUDITS OF RBOCS-SINCE 1/1/89
PRELIMINARY NARUC AUDIT SCOPE CATEGORIES

		Participated in Audit of: 1A Nonstructural Safeguards	Participated in Audit of: 1B Affiliate Transactions	If Yes Audit Year & Rel. Date	Enhanced Service Organization	Costing Methods And Practices	Yellow Page Operations	Billing & Collection Operations	Service/Central Management Organization	RBOCs' Research Organizations	Scope Not Known
	BellSouth										
1	Alabama	No	Yes	1987-89/9-90		X	X				
2	Florida	Yes	Yes	1988 & 1989		X	X				
3	Kentucky	No	Yes	1987-89/9-90		X	X				
4	Louisiana	Yes	Yes	Current							X A/
5	North Carolina	No	Yes	1987-89/9-90		X	X				
6	Tennessee	Yes	Yes	1987-89/9-90		X	X				
7	Georgia	No	No								
8	Mississippi	No	No								
9	South Carolina	No	No								
	US West										
10	Idaho	Yes	No	1989/12-90							X
11	Montana	No	Yes	1987 forward		X					
12	Oregon	No	Yes	Annual						X B/	
13	Arizona	No	No								
14	Colorado	No	No								
15	Iowa	No	No								
16	Minnesota	No	No								
17	Nebraska	No	No							X B/	
18	New Mexico	No	No							X B/	
19	North Dakota	No	No							X B/	
20	South Dakota	No	No								
21	Utah	No	No								
22	Washington	No	No							X B/	
23	Wyoming	No	No								
	Ameritech										
24	Michigan	Yes	Yes	1989		X					
25	Wisconsin	No	Yes	1989		X					
26	Illinois	No	No								
27	Indiana	No	No								
28	Ohio	No	No								
	South West Bell										
29	Oklahoma	No	Yes	1989/6-91		X	X				
30	Arkansas	No	No								
31	Kansas	No	No								
32	Missouri	No	No								
33	Texas	No	No								
	NYNEX										
34	Massachusetts	Yes	Yes	1986-89/1-91		X					
35	Maine	No	No								
36	New Hampshire	No	No								
37	New York	No	No								
38	Connecticut	No Response									
39	Rhode Island	No Response									
40	Vermont	No	No								
	Pacific Telesis										
41	California	No	No								
42	Nevada	No	No								
	Bell Atlantic										
43	Delaware	No	No								
44	Wash D. C.	No	No								
45	Maryland	No	No								
46	New Jersey	No	No								
47	Pennsylvania	No	No								
48	Virginia	No	No								
49	West Virginia	No	No								
50	F.C.C.	No	Yes	1984-89/1990		X					

A/ Comprehensive audit underway as part of merger petition.
B/ Audit of Advanced Technologies began December, 1991.

APPENDIX D

NARUC STAFF SUBCOMMITTEE ON ACCOUNTS' RBOC AUDIT OVERSIGHT COMMITTEE

SURVEY OF PAST, PRESENT, AND FUTURE AUDITS OF
REGIONAL BELL OPERATING COMPANIES (RBOC'S)

Name of State Commission or Agency ______________________________

Name of Person Responding ______________________________
Title ______________________________
Address ______________________________

Telephone Number ______________________________
Date ______________________________

Regional Bell Operating Company ______________________________

(1) Has your agency **CONDUCTED** or **OTHERWISE PARTICIPATED** in a <u>comprehensive</u> audit of the Affiliated Transactions of the Regional Bell Operating Company (RBOC) under your jurisdiction during the last five years that included the following:

(A). an audit to determine the effectiveness and adequacy of the present non-structural safeguards for the allocation of cost between the regulated monopoly operations and the non-regulated business under the corporate structure of the telephone company?

_______Yes _____No

If yes, provide the following:

(i). identify the type of transactions and the non-regulated business operation audited

____
____
____
____
____

(ii). period covered by audit ______________________________
(iii). date the audit was completed ______________________________

(2.) Is your agency **CURRENTLY** conducting or **PLANNING** to conduct or otherwise participate in a comprehensive audit of the Affiliated Transactions of the Regional Bell Operating Company (RBOCs) under your jurisdiction that include the following:

(A). an audit to determine the effectiveness and adequacy of the present non-structural safeguards for the allocation of cost between the regulated monopoly operations and the non-regulated business under the corporate structure of the telephone company?

_______Yes _____No

If yes, provide the following for each such audit:

(i). identify the type of transactions and the non-regulated business operation being or to be audited

____

____

____

____

____

(ii). period to be covered by audit______________________

(iii). date audit began or projected to begin _______________

(iv). projected date of completion______________________

(v). if the audit is a joint effort, identify the other states and federal agencies participating in the audit

____

____

____

____

____

(vi). if the audit is being performed by an outside consulting firm provide a copy of the Request for Proposals (RFP) and the contract.

APPENDIX D

(3). Has there been a reorganization of the RBOC in the last three years?

_______Yes ______No

If yes:

(A). give the date and describe the reorganization

____
____
____
____
____

(B). provide a copy of the plan of reorganization

(C). identify any transfer of major operations from the telephone company to a non-regulated company or the transfer of major operations from a non-regulated company to the telephone company.

____
____
____
____
____

(4). Please identify any specific areas that your commission or agency would like to have reviewed as part of the NARUC audits of the RBOCs.

____
____
____
____
____